

**BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.**

DEPARTMENT OF TRANSPORTATION

98 FEB 20 PM 3:47

DOCKET SECTION

**1998 U.S. - JAPAN COMBINATION SERVICE)
PROCEEDING)
)**

Docket OST-98-3419 - 82

**CONSOLIDATED REPLY
OF THE STATE OF HAWAII**

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February 20, 1998

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**CONSOLIDATED REPLY
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The State of Hawaii (the "State") hereby replies to the answers submitted on February 17, 1998 in the captioned proceeding. Only Continental Micronesia and Hawaiian Airlines have proposed service in the large and important Japan-Hawaii market. These services would produce tremendous public benefits, both in terms of service and competitive enhancements for the traveling public and in terms of related economic benefits to Hawaii and the United States. The State urges the Department to make available sufficient frequencies and designation opportunities to accomplish this important objective.

In light of the unique and compelling needs of Hawaii for additional Japan service, as explained by the State in its answer, the Department should not expend all of the 90 frequencies and two designations on mainland U.S.-Japan services. Instead, as Hawaii will later demonstrate, substantial public benefits would result from injecting

new competition and needed capacity in the large local Japan-Hawaii markets proposed by Continental Micronesia and Hawaiian Airlines.

The State takes particular umbrage at the answer of the City of Philadelphia, which characterizes the “Japan leisure market to Hawaii” as a “niche segment of the U. S . -Japan market. ” Philadelphia Answer at 13. As demonstrated by the attached exhibit, the Japan-Hawaii market is huge. With over 4.5 million INS passengers, the Japan-Hawaii market is approximately three times larger than the entire population of the City of Philadelphia.” Hawaii is the largest U.S. market for Japanese visitors, attracting over 40 % of such visitors annually. With all due respect to the City of Philadelphia, Japan-Hawaii is hardly a “niche” market?

The significance of the Japan-Hawaii market was not lost on the Japanese negotiators, who steadfastly refused to remove Japan-Hawaii cities from the restricted list. In making the route awards in this proceeding, the Department should place substantial emphasis on providing additional competition and capacity on the guarded and heavily traveled Hawaii-Japan routes, rather than devoting substantially all of the limited bilateral resources to mainland services.

^{1/} 1990 Census data.

^{2/} Notwithstanding Philadelphia’s claim that it is “an important tourist destination,” Hawaii is skeptical that Japanese tourists would seriously prefer to bypass Hawaii’s tropical paradise and travel some 3,000 miles further to enjoy the pleasures of the “numerous beach resorts along the Jersey shore. ” See, Philadelphia Answer at 2.

There are additional policy reasons that support an award to Hawaiian Airlines. This carrier is a relatively small Hawaii-based airline with nearly seventy years of valued service to the islands, including successful charter programs to Japan. The Department has an explicit statutory mandate to assist companies such as Hawaiian when awarding certificate authority. In particular, the Department must consider:

encouraging entry into air transportation markets by new and existing air carriers and the continued strengthening of small air carriers to ensure a more effective and competitive airline industry. 49 U.S.C. § 40101(a)(13) (emphasis added).

Hawaiian Airlines should be given the opportunity to expand upon its existing Japan charter programs and develop scheduled service. No other small carrier has proposed service to Japan, and the grant of authority to Hawaiian would best satisfy the Department's statutory obligation to foster and promote new entry by small carriers.

The Department should also act favorably on Continental Micronesia's request. Continental is the only MOU carrier serving Hawaii, and the award of frequencies for its Honolulu-Osaka and Honolulu-Tokyo services will strengthen its competitive position against the incumbents. With the signing of the new agreement, the opportunity now exists for Continental Micronesia to fulfill its long-standing desire to expand its Honolulu operation and become a more formidable competitor in the important mid-Pacific market.

WHEREFORE, the State of Hawaii urges the Department to grant the applications of Continental Micronesia and Hawaiian Airlines.

Respectfully submitted,

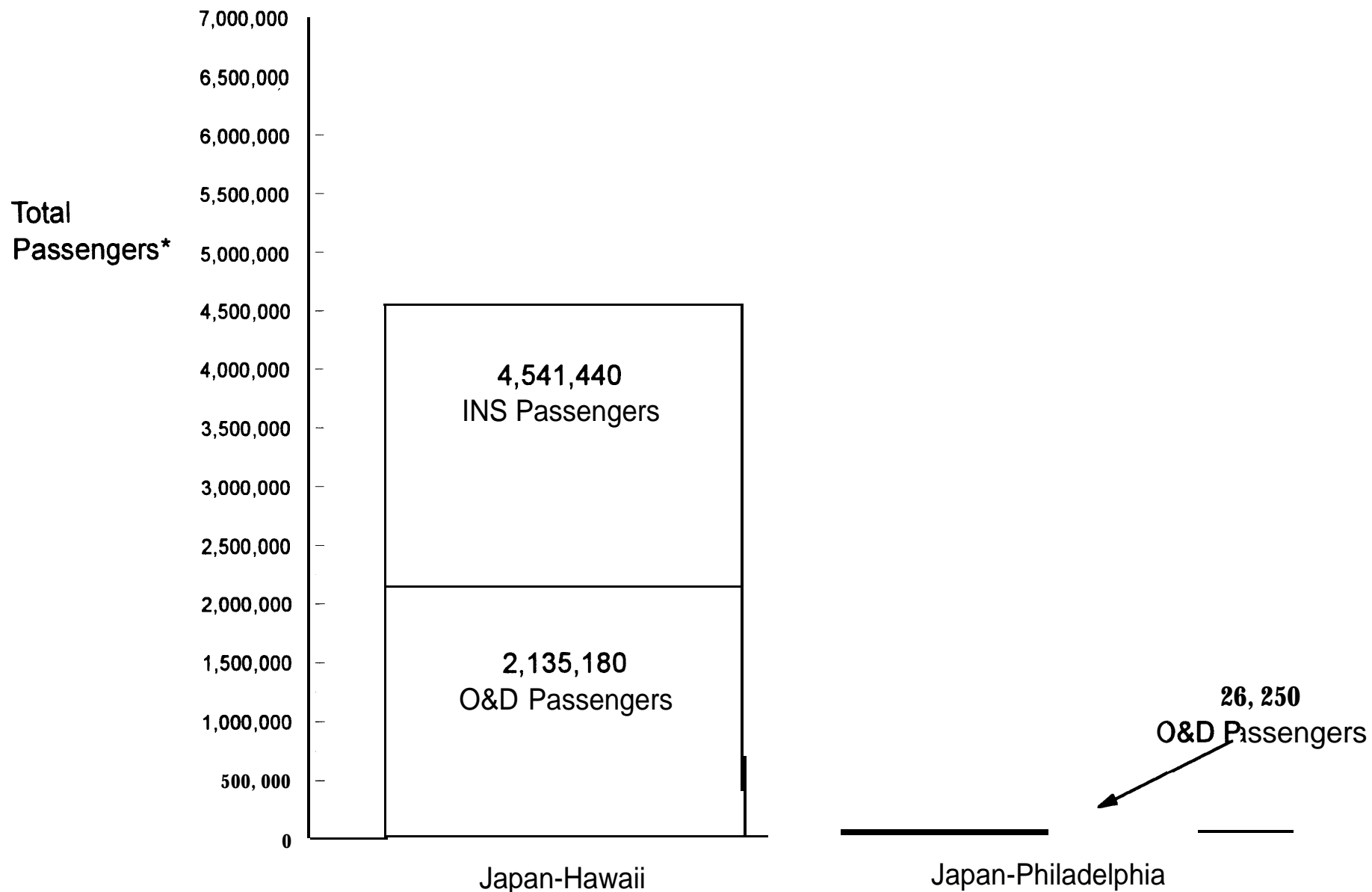
A handwritten signature in black ink, appearing to read "J.E. Murdock III", is written over the printed name.

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The Japan-Hawaii “Niche Leisure Market” Dwarfs The Size Of The Philadelphia-Japan Market



CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply of the State of Hawaii was served this 20th day of February, 1998, by first class mail, on the following persons :

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